

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE THEMBELIHLE LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Thembelihle Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-general's responsibility

3. As required by section 188 of the Constitution of South Africa, section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Because of the matters described in the basis for disclaimer of opinion paragraphs, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

4. Basis of presentation

- 4.1 In terms of Directive 4 *Transitional Provisions for Medium and Low Capacity Municipalities* issued by the Accounting Standards Board, the municipality has adopted transitional provisions for the following Statements of GRAP:

- GRAP 12 *Inventories*
- GRAP 13 *Leases*
- GRAP 16 *Investment Property*
- GRAP 19 *Provisions, Contingent Liabilities and Contingent Assets*

Directive 4 exempts the municipality from measuring and recognising its assets and liabilities covered by the aforementioned standards that were not so previously recognised.

The following disclosures were not made for the aforementioned standards as required by Directive 4:

- The classes of assets and/or liabilities that have not been measured in accordance with the applicable Statements of GRAP at the previous reporting period, but which are now so recognised.
- The nature and amount of any measurement period adjustments recognised during the period.
- Information on the progress made by the municipality towards measuring assets or liabilities in accordance with the requirements of the Statements of GRAP and recognising major classes of assets and liabilities that have not been recognised in full.

4.2 The records of the municipality did not permit the application of alternative audit procedures to confirm the accuracy, occurrence and completeness of the classification as required by Directive 4.

5. Property, plant and equipment

5.1 I was unable to confirm the completeness, rights, existence, valuation and classification of property, plant and equipment stated at R43 559 522 in note 6 to the financial statements, due to the following:

- An asset register could not be obtained for audit purposes. The records of the municipality did not permit the application of alternative audit procedures.
- The note disclosure to the financial statements was incomplete as all material classes of property, plant and equipment was not separately presented, as required by the Generally Recognised Accounting Standard, GRAP 1, *Presentation of Financial Statements*.
- Costs of a capital nature incurred on projects were not capitalised to property, plant and equipment. I could not determine the amounts of the capital expenditure, due to a lack of proper accounting records.

5.2 Property, plant and equipment as disclosed in note 6 to the financial statements were misstated due to the following:

- Additions to property, plant and equipment of R11 383 185 were incorrectly recognised as operating expenditure. If these additions had been recognised as property, plant and equipment, property, plant and equipment would have increased by R11 383 185 and operating expenditure would have decreased by the same amount.

6. Trade and other receivables

6.1 Trade and other receivables from exchange transactions stated at R20 019 497 in note 3 to the financial statements and trade receivables from non-exchange transactions stated at R15 049 315 in note 4 to the financial statements were misstated due to the following:

- Accounts receivable was not assessed for impairment as required by the Statement of Generally Accepted Accounting Practice, IAS 39 *Financial Instruments: Recognition and Measurement*.
- The water receivables balance of R6 469 536 as disclosed in note 3 to the financial statements did not agree to the balance of R6 905 301 per the trial balance. The municipality did not reconcile the difference of R435 765 between the financial statements and the underlying accounting records. Consequently, the accounts receivable balance was misstated by R435 765. I could not determine the effect on the other account balances or classes of transactions contained in the financial statements.

- 6.2 I could not obtain an age analysis or a detailed breakdown of accounts receivable for audit purposes. The records of the municipality did not permit the application of alternative audit procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the accuracy, completeness and valuation of trade receivables.

7. Inventory

- 7.1 I was unable to confirm the completeness, rights, existence and classification of inventory, due to the following:

- The municipality did not identify and disclose inventory as required by the Generally Recognised Accounting Standard, GRAP 12 *Inventory*.

8. Employee benefits

- 8.1 Employee benefit provisions stated at R363 778 in note 9 to the financial statements were misstated due to the following:

- Leave transactions were not recorded in the accounting records, resulting in the leave provision being misstated by R225 212. I could not determine the amount of the misstatement, due to the lack of proper record keeping.
- The municipality provides for post-retirement medical benefits by subsidising certain staff members according to the rules of the medical aid funds. The municipality did not accrue for the expected costs of these benefits as required by the South African Statement of Generally Accepted Accounting Practice, IAS 19 *Employee Benefits*. In terms of IAS 19, all post-employment benefit plans are defined as defined benefit plans and these plans may be funded, partially funded or unfunded. The municipality must account for the obligation using the projected credit unit method to measure its obligations and costs. In the absence of an actuarial valuation, I could not confirm the obligations, current service costs and accumulated actuarial gains/losses.
- No disclosure was made of long-term service bonuses, as required by IAS 19. I was unable to determine the understatement of the obligation, due to the lack of sufficient appropriate audit evidence.

9. Accounts payable

- 9.1 Creditors stated at R14 755 708 in note 10 to the financial statements were misstated due to the following:

- The creditors balance of R3 538 425 as disclosed in note 10 to the financial statements did not agree to the balance of R6 073 984 per the creditors reconciliation. The municipality did not reconcile the difference of R2 535 559 between the financial statements and the underlying accounting records. Consequently, the creditors balance was misstated by R2 535 559. I could not determine the effect on the other account balances or classes of transactions contained in the financial statements.

- 9.2 I was unable to confirm the existence, obligation, valuation and completeness of creditors stated at R14 755 708 in note 10 to the financial statements due to the following:

- I could not obtain sufficient appropriate audit evidence to support the creditors balance of R14 755 708. The records of the municipality did not permit the application of alternative audit procedures.

10. Consumer deposits

10.1 I could not obtain sufficient appropriate evidence to confirm the existence, completeness, obligations and valuation of consumer deposits stated at R328 988 in note 8 to the financial statements.

11. Unspent conditional grants

11.1 I was unable to confirm the completeness, obligation, existence and valuation of unspent conditional grants stated at R6 249 253 in note 11 to the financial statements, due to the following:

- I could not satisfy myself as to the application of conditional grants amounting to R27 742 766, as no records could be obtained regarding the application of the opening balance of conditional grants amounting to R6 246 550 and conditional grants that were received during the year amounting to R21 496 216. Conditional grants received during the year were disclosed in note 18 to the financial statements. The records of the municipality did not permit the application of alternative procedures.
- The unspent conditional grant balance of R6 249 253 was not represented by cash and cash equivalents. The aforementioned condition at year-end indicates that conditional grant funds of R6 249 253 were used to defray operating expenditure.

12. Non-current liabilities

12.1 The long-term loan stated at R5 436 875 in note 12 to the financial statements was misstated by R805 076, as the current portion of the long-term loan was not separately disclosed under current liabilities. Consequently, non-current liabilities were overstated by R805 076 and current liabilities were understated by the same amount.

13. Cash and cash equivalents

13.1 Cash and cash equivalents stated at R793 061 in note 5 to the financial statements were misstated, as a bank account with a balance of R164 860 was not included in the financial statements.

13.2 The municipality could not provide sufficient appropriate audit evidence to support some of the reconciling items totalling R74 709, between the cash and cash equivalents stated in the statement of financial position at R778 265 and the cash at bank stated on the year-end bank reconciliation and the bank statement at R645 747. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, rights, completeness, and valuation and allocation of cash and cash equivalents.

14. Revenue from non-exchange transactions

14.1 I was unable to confirm the completeness of property rates revenue stated at R1 775 552 (2008-09: R1 358 656) in note 14 to the financial statements, as the last property valuation had been performed in 2000. In terms of the Municipal Property Rates Act of South Africa, 2004 (Act No. 6 of 2004), valuations on land and other improvements should be performed every five years. A detailed ledger and a register could not be obtained for audit purposes. The records of the municipality did not permit the application of alternative audit procedures.

14.2I was unable to confirm the completeness, accuracy and occurrence of fines revenue disclosed at R290 576 in the statement of financial performance, due to the lack of sufficient appropriate audit evidence. A detailed ledger and a register could not be obtained for audit purposes. The records of the municipality did not permit the application of alternative audit procedures.

14.3I was unable to confirm the completeness, accuracy and occurrence of licences and permits revenue of R45 528 as disclosed in the statement of financial performance, due to the lack of sufficient appropriate audit evidence. A detailed ledger and a register could not be obtained for audit purposes. The records of the municipality did not permit the application of alternative audit procedures.

14.4Government grants and subsidies received as disclosed at R29 975 435 in note 18 to the financial statements were misstated, as conditional grants received were not recognised in accordance with the Standard of Generally Accepted Municipal Accounting Practice, GAMAP 9 *Revenue*. The municipality transferred all conditional grants received directly to revenue. In terms of GAMAP 9, conditional grants should be recognised as revenue when the qualifying expense has been incurred and all restrictions relating to the grant have been satisfied. I could not determine the misstatement, as the accounting records had not been updated and no supporting documents could be obtained.

15. Revenue from exchange transactions

15.1I was unable to confirm the completeness, accuracy and occurrence of service charges revenue stated at R10 827 924 in note 16 to the financial statements, due to the lack of sufficient appropriate audit evidence. A detailed ledger could not be obtained for audit purposes. The records of the municipality did not permit the application of alternative audit procedures.

15.2I was unable to confirm the completeness, accuracy and occurrence of rental revenue stated at R240 797 in note 17 to the financial statements, due to the lack of sufficient appropriate audit evidence. A detailed ledger and a register could not be obtained for audit purposes. The records of the municipality did not permit the application of alternative audit procedures.

15.3I was unable to confirm the completeness, accuracy and occurrence of interest earned on debtors stated at R1 039 284 in note 15 to the financial statements, due to the lack of sufficient appropriate audit evidence. A detailed ledger and a register could not be obtained for audit purposes. The records of the municipality did not permit the application of alternative audit procedures.

15.4I was unable to confirm the completeness, accuracy and occurrence of other income stated at R473 216 in note 15 to the financial statements, due to the lack of sufficient appropriate audit evidence. A detailed ledger and a register could not be obtained for audit purposes. The records of the municipality did not permit the application of alternative audit procedures.

16. Operating expenditure

16.1I was unable to confirm the completeness, accuracy and occurrence of repairs and maintenance stated at R2 243 868 on the face of the statement of financial performance, due to the lack of sufficient appropriate audit evidence. A detailed ledger could not be obtained for audit purposes. The records of the municipality did not permit the application of alternative audit procedures.

16.2I was unable to confirm the completeness, accuracy and occurrence of bulk purchases stated at R4 439 907 in note 24 to the financial statements, due to the lack of sufficient appropriate audit evidence. The records of the municipality did not permit the application of alternative audit procedures.

16.3I was unable to confirm the completeness, accuracy and occurrence of grants and subsidies paid stated at R10 139 009 in note 25 to the financial statements, due to the lack of sufficient appropriate audit evidence. The records of the municipality did not permit the application of alternative audit procedures.

16.4I was unable to confirm the completeness, accuracy and occurrence of general expenses stated at R7 861 226 in note 26 to the financial statements, due to the lack of sufficient appropriate audit evidence. The records of the municipality did not permit the application of alternative audit procedures.

17. Employee cost

17.1The councillors' remuneration of R1 429 319 as disclosed in note 21 to the financial statements did not agree to the total of R1 162 743 per the supporting payslips. The municipality did not reconcile the difference of R324 062 between the financial statements and the underlying accounting records. The municipality could not provide an explanation or supporting documentation for the difference. Consequently, employee cost was misstated by R324 062. I could not determine the effect on the other account balances or classes of transactions contained in the financial statements.

18. Accumulated surplus

18.1The municipality could not provide sufficient appropriate audit evidence to support the IMFO to GRAP conversion movements amounting to R43 550 273. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance to satisfy myself as to the accuracy, completeness and occurrence of these journals.

18.2Due to all of the above misstatements, the accumulated surplus and deficit amounts as disclosed in the statement of financial position and the statement of changes in net assets were materially misstated.

19. Irregular expenditure

19.1The completeness of irregular expenditure as stated in note 29.3 could not be confirmed due to the following:

- There was no system of control over the identification and recording of irregular expenditure on which I could rely for purposes of my audit.
- Section 112(1) of the MFMA requires the municipality to implement and maintain a supply chain management policy that is fair, equitable, transparent, competitive and cost-effective. I could not obtain any tender documentation and the municipality had not established a bid and evaluation committee to evaluate tenders. No control was in place to ensure that conditional grants were used for its intended purpose, as no supporting documents could be submitted for audit purposes.

20. Fruitless and wasteful expenditure

20.1 I was unable to confirm the completeness, accuracy and occurrence of fruitless and wasteful expenditure amounting to R63 397 as per note 29.2 to the financial statements, due to the lack of sufficient appropriate audit evidence.

20.2 There was no system of control over the identification and recording of fruitless and wasteful expenditure on which I could rely for purposes of my audit.

20.3 Section 95(d) of the MFMA requires the accounting officer to take reasonable steps to ensure that fruitless and wasteful expenditure is prevented. Additional interest payments and penalties amounting to R16 773 were incurred due to the non-payment of a loan owed to the Development Bank of Southern Africa. These payments were made in vain and could have been prevented.

21. Commitments

21.1 The completeness of commitments could not be confirmed, as it was not disclosed in the financial statements. The records of the municipality did not permit the application of alternative audit procedures and therefore the completeness of commitments could not be confirmed.

22. Going concern

22.1 Debtors increased by R9 105 993 over the prior year balance of R25 962 819 to R35 068 812 in the current year, while creditors increased by R1 813 102 over the prior year balance of R12 942 606 to R14 755 708 in the current year. The municipality incurred unauthorised expenditure of R6 986 876. The unspent conditional grant balance of R6 249 253 was not represented by cash and cash equivalents. The aforementioned prevailing conditions as at 30 June 2010 indicate a material uncertainty that may cast a significant doubt on the municipality's ability to continue as going concern. The municipality may be unable to realise its assets and discharge its liabilities in the normal course of operations. The financial statements and notes thereto do not disclose this fact.

23. Cash flow statement

23.1 The presentation of the cash flow statement, summarising the municipality's operating, investing and financing activities, did not comply with the requirements of the Standard of Generally Recognised Accounting Practice, GRAP 2 *Cash Flow Statements*, due to the following:

- The movement in the leave provision was not calculated and included in cash generated from operations.
- No capital expenditure was included under cash flows from investing activities.

24. Restatement of corresponding figures

24.1 The corresponding figures for 30 June 2009 have been restated as a result of the municipality converting to GRAP reporting standards. The extent of the restatement was included in note 27 to the financial statements, but the accuracy could not be confirmed as no supporting documentation could be provided for the journals and the journals had not been processed on the accounting system.

25. Fraud or error

25.1 I could not obtain reasonable assurance that the misstatements identified and reported were due to fraud or error, due to lack of sufficient appropriate audit evidence. The municipality could not provide me with a detailed ledger and audit evidence that support the account totals and account balances disclosed in the financial statements.

26. Unauthorised expenditure

26.1 I was unable to confirm the completeness, accuracy and occurrence of unauthorised expenditure amounting to R12 743 865 as per note 29.1 to the financial statements, due to the lack of sufficient appropriate audit evidence.

26.2 There was no system of control over the identification and recording of unauthorised expenditure on which I could rely for purposes of my audit.

27. Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

28. Emphasis of matter

I draw attention to the matter below. My opinion is not modified in respect of this matter:

29. Material losses

The council did not monitor distribution losses relating to electricity and water to establish whether any investigations should be conducted. The amount of the distribution losses could not be quantified, due to a lack of proper record management.

30. Additional matter

I draw attention to the matter below. My opinion is not modified in respect of this matter:

31. Material inconsistencies in the other information included in the annual report

I have not obtained the annual report and have therefore not been able to identify any material inconsistencies with the financial statements.

32. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the PAA and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the MFMA, the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA), the Municipal Planning and Performance Management Regulations, 2001, the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and the Municipal Structures Act of South Africa, 1998 (Act No. 117 of 1998), and financial management (internal control).

Predetermined objectives

33. Non-compliance with regulatory and reporting requirements

No reporting against predetermined objectives, indicators and targets

I could not conduct the audit of performance against predetermined objectives as the municipality did not prepare an annual performance report as required in terms of section 46 of the MSA and section 121(3)(c) of the MFMA.

No mid-year budget and performance assessments

The accounting officer of the municipality did not by 25 January 2010 assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72 of the MFMA.

Compliance with laws and regulations

34. Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003)

The annual report was not submitted to the auditor-general

Contrary to the requirement of section 127(5)(b) of the MFMA, the municipality did not submit the annual report to the auditor-general after the annual report had been tabled.

Expenditure was not incurred in accordance with applicable laws, resulting in unauthorised expenditure

Contrary to the requirement of section 15 of the MFMA, expenditure was not incurred in accordance with the approved budget of the municipality and exceeded the limits of the amounts appropriated for the different votes in the approved budget of the municipality by R1 390 967.

Expenditure was not paid within set parameters in accordance with applicable laws and regulations

Contrary to the requirement of section 65(2)(e) of the MFMA, creditors amounting to R6 073 984 were not settled within 30 days of receiving the relevant invoice or statement.

No effective revenue and collection systems

The municipality did not have effective revenue collection systems consistent with section 64(2)(a) of the MFMA.

The mayor did not adhere to her legislative responsibilities

The mayor did not comply with the legislative requirements on budgetary control and early identification of financial problems, as required by section 54(2) of the MFMA.

Contrary to the requirement of section 131(1) of the MFMA, the mayor did not ensure that issues raised in the prior year auditor's report were addressed.

Contrary to the requirement of section 53(1)(b) of the MFMA, the mayor did not coordinate the annual revision of the integrated development plan. The mayor did not determine how the integrated development plan was to be taken into account or revised for the purposes of the annual budget.

The accounting officer did not execute his responsibilities

Contrary to section 60(a) of the MFMA, the accounting officer did not provide guidance and advice on compliance with the MFMA to the political structures, political office-bearers and the officials of the municipality.

Contrary to section 61 of the MFMA, the accounting officer did not execute his responsibilities as required by the MFMA.

Contrary to section 68(a) of the MFMA, the accounting officer did not assist the mayor in performing her budgetary functions.

Submission of financial statements

Contrary to section 126(1)(a) of the MFMA, the annual financial statements were only submitted on 21 February 2011.

Supply chain management legislative requirements were not adhered to

- Contrary to section 62(1)(b) of the MFMA, record keeping and management were inadequate, resulting in requested information not being available or supplied after a significant delay.
- Contrary to the requirements of section 62(1)(b) of the MFMA, no risk assessment was performed for the identification, consideration and avoidance of potential risks in the supply chain management system.

The financial statements were not prepared in accordance with the applicable legislation

- Contrary to the requirements of section 62(1)(c) of the MFMA, the municipality did not maintain effective, efficient and transparent systems of internal control for assets and liabilities, debtors and revenue, expenditure and creditors, guarding against fraud and financial mismanagement.
- It could not be confirmed that the municipality had prepared financial statements in accordance with the legislative requirements to fairly present the state of affairs of the municipality, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, its cash flows and its financial position as at the end of the financial year, as required by section 122(1) of the MFMA.
- Contrary to the requirements of section 123 of the MFMA, the municipality did not properly disclose how grants had been spent in the financial statements.
- Contrary to the requirement of section 125(2)(e) of the MFMA, the municipality did not ensure that incidents of non-compliance with the MFMA were disclosed in the financial statements.

Non-submission of reports

Contrary to the requirement of section 32(4) of the MFMA, the municipality did not submit reports of unauthorised, irregular as well as fruitless and wasteful expenditure incurred to the MEC for local governance and the auditor-general.

Monthly reconciliations not performed

Contrary to section 98 of the MFMA, monthly reconciliations of municipal accounts were not performed, as the accounting officer did not take reasonable measures to ensure compliance with the act. Treasury Regulation 17.1.2 requires the sources of the transactions in a clearing account to be readily identifiable, as well as monthly reconciliations to be performed to confirm the balance of the account. This information could not be provided, as the accounting records of the municipality were not updated throughout the financial period.

Risk assessment not performed

A risk assessment was not performed for the financial year under review. This led to a fraud prevention policy not being implemented, which resulted in the contravention of section 62(1)(c) of the MFMA.

35. Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009)

The annual report was not submitted

Contrary to the requirements of sections 11 and 12 of DoRA, the accounting officer did not perform his duties with regard to the receipt of allocations as set out in DoRA.

36. Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000)

Performance reviews not performed

No performance reviews were performed as required by sections 39 and 40 of the MSA.

Disclosure of interests of councillors not adequately documented

Contrary to the requirement of schedule 1, section 5 of the MSA, the disclosure of councillors' interests was not adequately documented.

No approved staff establishment

Contrary to section 66 of the MSA, the municipality had no approved staff establishment that met all the requirements of the MSA.

INTERNAL CONTROL

37. I considered internal control relevant to my audit of the financial statements, the report on predetermined objectives and compliance with the MFMA, DoRA, the MSA, the Municipal Planning and Performance Management Regulations, 2001, and the Municipal Structures Act, 1998, but not for the purpose of expressing an opinion on the effectiveness of internal control.

38. The matters reported below are limited to the significant deficiencies regarding the basis for disclaimer of opinion paragraphs, the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

39. Leadership

The leadership did not evaluate whether management had implemented effective internal controls by gaining an understanding of how senior management members had met their responsibilities regarding the management of assets and liabilities, revenue and debtors, expenditure and creditors, and the preparation of financial statements.

The accounting officer did not ensure that internal control procedures were developed, implemented and monitored to ensure that monthly financial reporting was performed.

The council and the accounting officer did not exercise oversight responsibility over reporting, compliance with laws and regulations and internal control. The leadership did not implement actions to address the prior year audit findings.

Among finance staff there was an insufficient comprehension of the accounting framework. This contributed towards qualifications in the financial statements of the municipality.

The leadership did not take timeous and adequate action to address weaknesses in the finance and supply chain management directorate, which resulted in non-compliance with applicable legislation.

The chief financial officer did not properly monitor the recording of transactions and reconciliation of financial records.

Senior management did not respect and adhere to internal controls, which resulted in unauthorised as well as fruitless and wasteful expenditure being incurred and not detected by management.

40. Financial and performance management

40.1 Financial management

The performance and monitoring of key controls on a daily basis did not occur, which resulted in material misstatements in the financial statements. Financial statements were not prepared by the chief financial officer, who is charged with this responsibility. Key officials in the finance section were not adequately involved in the preparation and review of financial statements prepared by consultants, resulting in various misstatements. In the absence of appropriate GRAP training to finance staff, management had to appoint external service providers to compile the financial statements.

Specific training interventions are needed to enable finance staff members to understand and implement the GRAP reporting framework effectively in order to fully comply with the disclosure requirements of these standards.

Record management and maintenance disciplines should be refined and included in the daily key controls and should be monitored and reviewed by the appropriate level of management.

40.2 Predetermined objectives

Senior management did not ensure that annual performance was monitored throughout the year and therefore no performance report was submitted as required by the MFMA. Senior officials were not held accountable for their failure to execute their responsibilities.

40.3 Compliance with laws and regulations

There were significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.

41. Governance

41.1 Risk identification

The municipality did not perform a risk assessment during the year; therefore, risks relating to the achievement of financial management disciplines, accurate and complete financial reporting and reporting on performance against predetermined objectives could not be identified and addressed.

41.2 Fraud prevention

The accounting officer did not ensure that a fraud prevention policy was implemented for the financial period under review.

Kimberley

21 June 2011



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence